

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

*DIVISION OF OIL & GAS*

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**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

February 9, 2009

Mr. Jim Arlington  
Vice President Land & Governmental Affairs  
Pacific Energy Resources Ltd.  
310 K Street, Suite 700  
Anchorage, Alaska  
99501

Subject: Redoubt Unit 9<sup>th</sup> Plan of Development

Dear Mr. Arlington,

On August 14, 2008, the State of Alaska, Department of Natural Resources, Division of Oil and Gas (Division) conditionally approved the Redoubt Unit 8<sup>th</sup> Plan of Development Update (8th POD) from Pacific Energy Resources, Ltd. (PERL) as Operator of the Redoubt Unit. As a part of the conditional approval, the Division specified the following:

- the Redoubt Unit 9<sup>th</sup> POD (9<sup>th</sup> POD) should propose specific commitments to development activities supported by geological, geophysical, and engineering data, contracts, and relevant economic analysis as appropriate to be deemed complete under 11 AAC 83.343(c).
- by December 1, 2008, PERL must submit a proposal for the Final Redetermination for the Hemlock Participating Area (Hemlock PA) including necessary supporting data, and schedule a presentation of the proposal.
- by February 1, 2009, PERL must address and complete the overdue Interim Redetermination for the GO PA, which was due February 1, 2007.

PERL submitted the proposed 9<sup>th</sup> POD on November 17, 2008 which included "Redoubt Unit: Summary of Identified Areas of Potential and Potential Drilling Operations" and "Economic

*"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."*

Evaluation of Redrill Opportunities” for which PERL requested confidentiality under AS 38.05.035(a)(8)(c). The Redoubt 9<sup>th</sup> POD proposes four redrills of existing wells within the Hemlock PA (RU #2A, RU #3A, RU #4B and RU #5B). PERL also proposes two new wells, the RU #8 and the RU #9, however, “the decision to drill either well will be subject to an economic evaluation that has yet to be scheduled.” “The northern well (the RU#9) may, depending on the final well design, extend beyond the current boundary of the HPA into the northern fault block.” Additional plans include the construction of a modular grind and inject plant on the Redoubt Unit Osprey Platform and to continue the waterflood operations in the RU #6 and to consider expansion of waterflood operations once existing wells water out. Any drilling activity in the Redoubt Unit requires a drill rig on the platform and PERL “anticipates moving a drill rig onto the Osprey Platform before the end of the 9<sup>th</sup> POD”. The Redoubt 9<sup>th</sup> POD does not provide specific commitments to development activities as recommended in the approval of the 8<sup>th</sup> POD. The 9<sup>th</sup> POD does not propose or commit to any development activity on acreage within ADL 381201 or ADL 381003.

On November 26, 2008 the Division received the Redoubt Unit 9<sup>th</sup> Plan of Development, Supplement (Supplement) which included updated Exhibits to the Redoubt Unit Agreement. In the Supplement PERL requested that the completion of the Final Redetermination for the Hemlock PA be postponed until after the drilling of two proposed wells, the RU #8, and the RU #9, and that the contraction of the Redoubt Unit be postponed until after the completion of the Final Redetermination of the Hemlock PA.

On December 10, 2008 PERL presented “Geologic Modeling, Reserves Estimations Cook Inlet Assets, Redoubt Unit (Hemlock)” which addressed geologic modeling and reserves estimations for the Hemlock PA. PERL requested confidentiality under AS 38.05.035(a)(8)(c) for the presentation handout. PERL has met the requirement of the Redoubt 8<sup>th</sup> POD approval for a complete submittal of the Redoubt 9<sup>th</sup> POD under 11 AAC 83.343(c).

The Supplement requests the postponement of the Final Redetermination until such time as the RU#8 and RU #9 are drilled, however, the 9<sup>th</sup> POD does not specifically commit to a drill by date or bottomhole location for these wells. Without specific commitments for additional Hemlock PA wells, there is no basis to further postpone the redetermination. Section IV, paragraph 6 of the December 16, 2002 Decision Approving the Hemlock Participating Area within the Redoubt Unit states:

“The RU Owners have agreed to an automatic contraction and interim redetermination of the HPA after 30 months (June 1, 2005) to 160 acres around the development wells and 160 acres around proposed development wells. The RU owners have also agreed to a final redetermination after six years (December 1, 2008) to 160 acres around the development wells at that date.”

PERL's request for postponement is denied and the proposed Final Redetermination allocation factors are now due.

The Approval of the Formation of the GO Gas Participating Area (GO PA) required an Interim Redetermination by February 1, 2007. The 9<sup>th</sup> POD does not commit to development work in the GO PA; "since the RU #3 well has been shut-in for such a long period, PERL plans to re-drill the RU#3 well and convert it into a Hemlock oil well during the term of the 9<sup>th</sup> POD". If the sole producing well in the GO PA is no longer producing, the participating area should dissolve. On February 6, 2009, PERL submitted a request to terminate the GO PA. The GO PA has not produced gas since August, 2004. The Division accepts this request and will issue a decision terminating the GO PA which will cancel the requirement for an Interim Redetermination.

The Division considered the criteria in 11 AAC 83.303 and finds that the proposed Redoubt 9<sup>th</sup> POD protects the public interest. The Redoubt 9<sup>th</sup> POD is approved for the period February 15, 2009, through February 15, 2010. The approval is only for the general POD, specific field operations require additional approval. Pursuant to 11 AAC 83.343 – 11 AAC 83.346, the Redoubt 10<sup>th</sup> POD will be due in this office ninety days prior to the expiration date of the current POD, on or before November 17, 2009.

Under 11 AAC 83.356(e), and Article 11.3 of the Redoubt Unit Agreement (RUA) the unit may contract no sooner than ten years from the effective date of the unit formation. The Division approved the Formation of the Redoubt Unit August 15, 1997. According to the Redoubt 9<sup>th</sup> POD, development decisions have yet to be made. The Division approved the Redoubt 8<sup>th</sup> POD for a six month period in order to give PERL time to consider development decisions and to then submit a Redoubt 9<sup>th</sup> POD which would specify commitments to development activities. Since the Redoubt 9<sup>th</sup> POD does not provide specific commitments to development activities, the Division will not delay the contraction of the Redoubt Unit.

As required under 11 AAC 83.356(e) and Article 11.4 of the RUA, this letter serves as notice to the Unit Operator (PERL), the Working Interest Owner (Pacific Energy Operating Alaska, LLC) and royalty owners of the proposed contraction of the Redoubt Unit. Comments should be mailed, faxed or e-mailed to the Division of Oil and Gas, 550 W. 7th Ave., Suite 1100, Anchorage, Alaska 99501-3560, Attention: Temple Davidson, Petroleum Land Manager; Phone 907-269-8784, Fax 907-269-8938; e-mail Temple.Davidson@alaska.gov. Comments must be received no later than 5:00 p.m. (Alaska Time), March 13, 2009 to be considered.


The Division will issue separate decisions for the Hemlock PA Final Redetermination, GO PA Termination, and the contraction of the Redoubt Unit.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Tom Irwin, Commissioner, DNR, 550 W. 7<sup>th</sup> Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to 1 -907-269-8918, or sent by electronic mail to [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov). This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

If you have any questions regarding this decision, contact Temple Davidson with the Division at (907) 269-8784

Sincerely,



 Kevin R. Banks  
Director

Attachment: List of Overriding Royalty Interest Owners

Cc: Jeff Landry, Department of Law  
Pacific Energy Operating Alaska, LLC

Redoubt Unit 9<sup>th</sup> Plan of Development  
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Redoubt Unit 9<sup>th</sup> Plan of Development

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